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**TESTIMONY OF ELECTRONIC INDUSTRIES ALLIANCE
PRESIDENT AND CHIEF EXECUTIVE OFFICER DAVE McCURDY
BEFORE THE HOUSE GOVERNMENT REFORM COMMITTEE
ON GLOBAL COMPETITIVENESS & INNOVATION
February 9, 2006**

Thank you, Mr. Chairman, Ranking Member Waxman and Members of the Committee. I am appearing today as the President and CEO of the Electronic Industries Alliance (EIA). EIA is grateful for the opportunity to appear before you today to discuss the issues of global competitiveness and innovation, and what the federal government can do to improve the business and job creation climates in the U.S.

EIA's Focus on Global Competitiveness and Innovation

As one of oldest, largest high-tech trade associations representing the full spectrum of the electronics industry, EIA frames its policy priorities in the context of innovation & global competitiveness.

The best hope for the U.S. to maintain its edge against rising global competition is by fostering and expanding our most prized intellectual asset: innovation. For decades, innovation has given the U.S. and the rest of the world wave after wave of technological advancement and generated millions of jobs, economies of scale and direction for future growth. If we want to ensure that successive waves of innovation begin in the U.S., we have to have the necessary innovation infrastructure in place.

I commend President Bush for raising innovation in his State of the Union Address and budget. I also want to note the bipartisan leadership in the leading Senate measures and encourage the House to develop and advance bipartisan approaches to this

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critical measure. The House Democratic leadership has made an encouraging start with its recent Innovation Agenda, and we hope these efforts will bear bipartisan fruit.

EIA realizes that making innovation and global competitiveness a policy priority is no easy task when other important domestic and international issues are at stake for Congress and the Administration. Nonetheless, the call for a national innovation vision and strategy is no less compelling today than it was when we began our work three years ago, and we deeply appreciate the interest this Committee has shown in examining these concerns.

As a passionate advocate of innovation, I am careful, however, not to hype or overstate the challenge we face. In my opinion, we are not in “a crisis.” As the title of our 2004 policy playbook, *The Technology Industry at an Innovation Crossroads* (to download, go to www.eia.org/playbook.) indicates, we believe America is at an important national juncture. Currently, the U.S. is far ahead of the foreign competition in our national ecosystem that supports innovation and creativity. It is an enormous advantage that has created vast economic growth and prosperity for our nation. However, other nations have read the blueprints of America’s success and are attempting to duplicate our model. Accordingly, we cannot and should not rest on our laurels. It is absolutely imperative that we continue to renew the innovation pipeline and infrastructure to remain the preeminent leader of technology development.

EIA’s Policy Efforts: Policy Playbook and Engaging Policymakers

EIA has been examining the significant structural changes taking place in the world economy and in the high-tech industry in particular for some time. Over the past three years, the Alliance has devoted its resources to promoting a bipartisan national vision and strategy on innovation and global competitiveness.

In January, 2004 at EIA’s Executive Leadership Forum and Board of Governors Meeting, we held a unique exercise known as Prosperity Games™ -- essentially war games for the business world – that brought together members of our board, legislators, Administration staff, industry experts and thought leaders for two days and emerged with the outline for *The Technology Industry at an Innovation Crossroads*. Published in the

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spring of 2004 with 40 specific recommendations, the playbook has been endorsed by Members of Congress and thought leaders on both sides of the aisle.

EIA's policy playbook addresses many of the issues that have grown in prominence and been echoed by our colleagues throughout the technology and business community, including those in the recent policy report developed by Norm Augustine and the National Academies of Sciences (NAS) entitled "Rising Above the Gathering Storm."

Since 2002, EIA has also met with numerous competitiveness proponents in the House and Senate as well as key Bush Administration officials, including Dr. John Marburger. We appreciate Dr. Marburger's leadership as head of the White House's Office of Science and Technology Policy. In addition, for the past decade, the National Science and Technology Education Partnership or NSTEP, EIA's philanthropic partner, has focused on the need to strengthen science, technology, engineering and mathematics curriculum known as STEM so that the U.S. high-tech industry has a workforce geared to the future demands of a global innovation economy.

These issues are important to me personally as well. In fact, my first legislative achievement – and disappointment -- in the House was having an amendment added to the Higher Education Act for Math & Science Teacher scholarships and providing summer jobs in industry. The fact that the program was never appropriated should serve as a cautionary note for all of us who are trying to balance the realization of important policy goals with the fiscal realities of budget demands.

EIA also participated in the National Innovation Initiative led by my friend Deborah Wince-Smith, also testifying here today, and we are working to advance positive, bipartisan legislation such the National Innovation Act (S. 2109), introduced by Senators John Ensign and Joe Lieberman in December, and the three bills prompted by the NAS "Gathering Storm" report that make up the Protecting America's Competitive Edge (PACE) legislation introduced last month by Senators Lamar Alexander, Jeff Bingaman, Pete Domenici and Barbara Mikulski.

EIA's sector partner, the Telecommunications Industry Association (TIA), is also providing policy leadership on the issues of innovation and competitiveness. Through its

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Communications Research Division, whose efforts are led by the president of research for Telcordia Technologies and the chief technology officer for Bechtel Telecommunications, TIA's chief technology officers are working to ensure that the U.S. communications sector continues to be a world leader in advanced research. TIA is also providing expert advice to the government on the status and impact of research and technology to the communications industry and educating the public on the importance of communications research as a foundation for the communications products and services on which they depend.

We have met repeatedly with the Administration over the years and earlier this year, I wrote to President Bush on behalf of the Alliance and urged him to promote U.S. competitiveness as a national policy goal in this year's State of the Union Address and to "make 2006 the year of innovation." We are heartened that the President devoted part of his address to innovation-related issues such as basic research, math and science education and a skilled workforce. In fact, many of the approaches the President is urging the U.S. to adopt as part of his American Competitiveness Initiative reflect EIA's past recommendations. EIA has therefore publicly pledged our support for the President's American Competitiveness Initiative, as well as for the welcome focus on these areas that a number of Members of Congress have initiated. We are also cognizant of the fact that the myriad goals and recommendations established in these critical policy areas will be costly to realize, and we welcome the critical debates and prioritizing that must occur as we move forward.

Proposals to Improve U.S. Environment for Competitiveness and Innovation

Improving the landscape for high-tech companies doing business in the U.S. and employing American workers can be accomplished in a number of ways. We can provide an incentive for research and development by modernizing the R&D tax credit and finally making it permanent, as the President and others have recommended. The federal government has a crucial role to play in fostering research at the most basic and experimental level, and our technology industry must invest in the later-stage research and in development to bring consumers the next generation of innovative products. R&D

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involves great risk and great expense for an uncertain outcome, and companies must have reasonable incentives in place in the U.S. to mitigate that risk. The expiration of the credit at the end of 2005 meant as much as a 7.5% increase in the cost of doing qualifying R&D in the U.S. for many companies, potentially leading to a shift in R&D to other countries with more generous tax incentives. Those R&D centers tend to leave and not return home. The credit's lapse, even if it's just for a short time, leads to uncertainty regarding the availability of the credit, leaving companies unable to plan and causing them to discount its long-term value, which reduces the credit's benefit to the economy. R&D planning requires a long-term view, but short-term extensions and lapses dramatically dilute the incentive. A strengthened R&D credit will provide companies with a strong reason to undertake and increase domestic research work, and we endorse the President's idea to modernize the credit, in addition to making it permanent. We also thank Committee Members Shays, LaTourette, Souder, Cannon, Miller, Issa, Westmoreland, McHenry, Dent, Foxx, Lantos, and Higgins for their co-sponsorship of legislation (HR 1736) calling for a permanent and enhanced credit.

The President's American Competitiveness Initiative includes a series of education initiatives such as the Advanced Placement/International Baccalaureate (AP/IB) Program; the Adjunct Teacher Corps; the National Math Panel; Math Now for Elementary and Middle School Students; Evaluation of Federal STEM education programs; the inclusion of Science Assessments in No Child Left Behind accountability; and grants to local educational agencies to increase the achievement of high school students. These initiatives are worthwhile proposals that deserve the consideration and attention of industry and policymakers alike.

As part of his American Competitiveness Initiative, the President also calls for Career Advancement Accounts of up to \$3,000 available to for workers entering the workforce or transitioning between jobs. We find this proposal encouraging in that it helps to create a system of continual skills training and worker education as also outlined in our policy playbook; in the past, EIA has proposed the availability of wage insurance for high-tech workers who enter the teaching profession.

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The U.S. must also be a place that continues to attract the foreign talent that has always helped imagine, create and perfect America's innovative products and services. Bright students and skilled professionals from around the globe see the U.S. as the place to make the most of their talents and as a nation that recognizes and rewards unique abilities and hard work. While we must foster the skills and talents of our own citizens, as well, we cannot afford to turn away the best and brightest from all corners of the world. By facilitating expedited visa processing, as recently outlined by Secretary of State Rice and Homeland Security Secretary Chertoff, and by ensuring a reasonable balance between security and our historical acceptance of foreign talent, the U.S. can continue to lead.

We should also devote attention and resources to improving the U.S. business landscape, including the tax burdens for companies trying to innovate and create jobs here. Let me give you one example: It costs \$1 billion more to build and operate a semiconductor factory in the U.S. than it does outside our borders, and the biggest factor – about 70% of that \$1 billion difference – is taxes. Two-thirds of new 300mm fabs under construction, equipping, or in production are in Asia. Why? Because China offers a five-year tax holiday for a new fab and then a 50% rate cut for another five years. China's business-friendly approach was prompted in part because Malaysia offers a 10-year tax holiday. The use of these types of business recruitment tools is not limited to countries in the Far East. Israel recently offered a leading high-tech company a \$700 million tax credit to build a fab there. It would be wise for the U.S. to consider adopting approaches similar to these nations.

Along these lines, Members should also be aware that the ability of states to offer incentives for businesses to locate production is called into question in the *Cuno vs. Daimler-Chrysler* case, which will be argued before the Supreme Court in March. Such state actions are an important element in the competitiveness equation, and the Congress should act to protect this state right, if it is struck down. Some of the options we need to consider to attract highly productive investments in the U.S. include a meaningful corporate tax rate reduction, full expensing of a factory in year one, or an investment tax credit.

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Small Business Innovation Needs

Recently, the CEO of one of EIA's member companies outlined the challenges faced by smaller, start-up high-tech businesses operating in the global economy. He noted that we often speak on issues of immigration, visas, employment outsourcing, and technology innovation. Politicians, he observed, often use them as hot button issues, while others discuss them as and independent silos within the current public discourse, unaffected by each other. However in his world of start-ups, these issues are closely intertwined. "Start-ups live by the 'sword' of innovation," he said. They rely on technical innovations to attract the critical first-round of investors, favorable immigration and visa policies to refine their technological achievements by attracting the best talent to work in the U.S. in a cost-effective manner, and business opportunities in other markets to help their startup survive, let alone expand, in an incredibly competitive environment.

He is concerned that the U.S. is not doing enough to encourage innovation and suggested that America must foster a business environment that rewards entrepreneurs. He is not suggesting government intervention. Instead, he proposes partnerships between business and government such as those recently initiated in Canada and Israel, and partnerships between small businesses and large corporations.

These are interesting comments that I think this committee would do well to take into consideration.

Concluding Remarks

EIA has been calling for a shared commitment in the effort to create a national technology vision and strategy that can bolster U.S. competitiveness by nurturing and expanding our innovation economy for some time. With that in mind, I would like to emphasize that all the components of an innovation agenda – a commitment to R&D, an improved, STEM-oriented education system, continuous worker training expedited visa reform and an environment more conducive to doing business in the U.S. – should be considered together, not each in its own vacuum.

With the President's American Competitiveness Initiative, the Administration has added its significant voice to this call. We commend President Bush and the bipartisan

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leadership shown by members of the Senate and encourage members of the House to continue working to craft similar innovation efforts.

The President's American Competitiveness Initiative, coupled with Senate action, growing interest and anticipated legislation in the House, and efforts by EIA, TIA and our other sector partners, the Council on Competitiveness, the National Innovation Initiative, the National Academy of Sciences and a host of others, suggests that we are on the cusp of improving the nation's future competitiveness. We welcome the opportunity to provide the leadership and expertise of the U.S. high-tech industry in realizing these goals.

I am grateful to Chairman Davis and to this Committee for the interest you have shown in examining these concerns, and I welcome your questions and comments. Thank you.

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